

www.lsetf.ng

2017 Annual Report



40%

of Nigeria's productive population are either unemployed or underemployed

The **LSETF** IS DOING SOMETHING ABOUT THIS

Loan Programme

₦5.98B approved for 8,229 SME businesses

Employability Programme

10,000 Youths to benefit from trainings & job placements

Start-Up Support

₦61M approved for trained youths to start own business



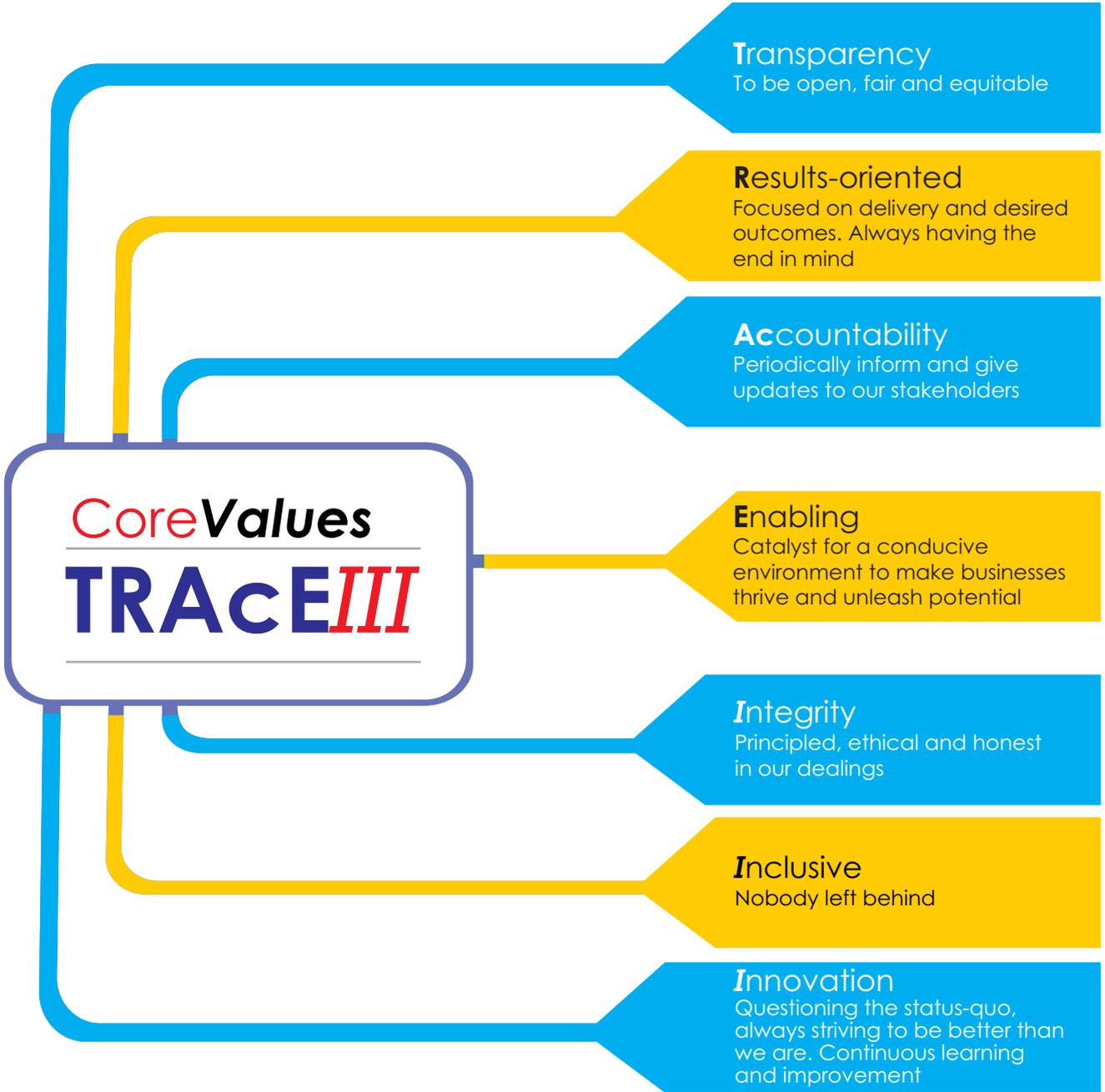
	Pages
Corporate Information	6
Results at a glance	7
Trustees Report	8
Statement of trustees responsibilities in relation to the preparation of financial statements	11
Board Audit and Risk Committee Report	12
Board Credit and Investment Committee Report	14
Board Governance Committee Report	16
Board Stakeholder Committee Report	18
Independent Auditors Report	20
Statement of Financial Performance	22
Statement of Financial Position	23
Statement of changes in Net Assets/Equity	24
Cashflow Statement	25
Notes to Financial Statements	27
Other National Disclosures	
Value Added Statement	54
Financial Summary	55



Creating employment and entrepreneurship opportunities for all Lagos residents.



Enabling Lagos residents realize their aspirations by providing leverage & access to finance



About The LSETF



25Billion
seed fund

provided by the
Lagos State Government

28,057 MSMEs
funded by 2019

Create at least
133,000 Direct
& up to **218,000**
Indirect jobs



Add over
150,000
New Tax Payers



Achieve sustainable funding
by ensuring non-LASG sources
contribute at least

50% of total funding
by 2019

Supporting Enterprise Creating Jobs

The Lagos State Employment Trust Fund (“LSETF”), was established by The Lagos State Employment Trust Fund Law 2016 to enable Lagos residents realize their aspiration by providing leverage and access to finance.

To achieve its mission, LSETF launched three key programmes:

MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) LOAN SCHEME

Through this scheme Lagos residents can apply for affordable loans to start or grow their businesses. Micro Enterprise start-ups can get a loan of up to N250,000; existing Micro-businesses can get a loan of up to N500,000; while registered small and medium sized businesses can get a loan of up to N5,000,000, all at 5% interest rate per annum, and without collateral.

EMPLOYABILITY PROGRAMME

The LSETF’s Employability Programme aims to train and place unemployed Lagos residents in various strategic sectors within the state. The programme has started with the Lagos State Employability Support Project (LSESP), which is being implemented with the United Nations Development Programme (UNDP), to train and place 10,000 unemployed Lagos State residents in jobs by 2019.

LAGOS INNOVATES

Lagos Innovates aims to ensure Lagos State is Africa’s most vibrant technology start-up ecosystem. Under this programme, founders, operators of co-working spaces and talent within the ecosystem can apply for any of its programmes, which will launch in 2018.

Corporate Information



Board of Trustees	<p>Mrs. Ifueko M. Omoigui Okauru, MFR Mr. Ayodele Martins Mr. Tunde Bank-Anthony Mrs. Bilikiss Adebisi-Abiola Mr. Otto Orondaam Pastor Funmi Dawodu, FCA Comrade Michael Popoola Ajayi Mr. Akinyemi Ashade FCA *Mr. Tunde Durosinmi-Etti Mrs. Uzamat Akinbile-Yusuf Akintunde Oyebode</p>	<p>Chairman Member Member Member Member Member Member Member Member Member Member Executive Secretary</p>
Registered office:	16 Billings Way, Oregun Lagos, Nigeria	
Auditor:	KPMG Professional Services KPMG Tower Bishop Aboyade Cole Street Victoria Island, Lagos, Nigeria	
Bankers:	<p>Access Bank of Nigeria Plot 999c, Danmole Street Victoria Island, Lagos, Nigeria</p> <p>Guaranty Trust Bank Plc Plot 635, Akin Adesola Street Victoria Island, Lagos, Nigeria</p> <p>Stanbic IBTC Bank Plc ** IBTC Place, Walter Carrington Crescent Victoria Island, Lagos, Nigeria</p> <p>Sterling Bank Plc ** Sterling Towers 20, Marina Lagos, Nigeria</p> <p>First City Monument Bank Plc ** Primrose Towers, 17A, Tinubu Street, Marina Lagos, Nigeria</p> <p>Bosak Microfinance Bank Limited ** Plot 8, Guinness Road, Ogba Industrial Estate, Ikeja Lagos, Nigeria</p>	<p>Bowen Microfinance Bank Limited** Baptist Academy Compound Obanikoro, Ikorodu Road Lagos, Nigeria</p> <p>Primera Microfinance Bank Limited ** 24, Kofo Abayomi Street, Victoria Island Lagos, Nigeria</p> <p>Vineland Microfinance Bank Limited ** Suite EU6, 01/02, The Arena Bolade Oshodi Agege Expressway, Lagos, Nigeria</p> <p>Parkway Microfinance Bank Limited ** 96/102, Broad Street, Lagos, Nigeria</p> <p>Ibile Microfinance Bank Limited ** 121, Obafemi Awolowo Way, Allen Roundabout, Ikeja, Lagos, Nigeria</p>

* Mrs. Uzamat Akinbile-Yusuf replaced Mr. Tunde Durosinmi-Etti in 2017.

** These Bankers also act as agents of the Fund with respect to the disbursement, monitoring and collection of repayments on loans granted to beneficiaries.

Results at a glance

for the year ended
31 December 2017



	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
Gross income	367,085	245,577
Total expenses	(2,384,150)	(377,878)
Deficit from operations	(2,017,065)	(132,301)
Gain on available-for-sale securities	-	31,950
Reclassification to the statement of Financial performance on disposal	(31,950)	-
Performance for the year	(2,049,015)	(100,351)
Total assets	7,248,783	6,440,674
Total liabilities	(248,149)	(141,025)
Net assets/equity	7,000,634	6,299,649

The 2017 Macro-Economic and Business Operating Environment

In 2017, the Nigerian economy recovered from a two-year recession as Gross Domestic Product (GDP) growth reached 0.8% in 2017. Apart from a return to growth, inflation also improved, closing the year at 15.4% year-on-year, from 18.6% in December 2016. External reserves rose to over US\$38 billion, from \$27 billion in 2016.

This improvement in macroeconomic indicators was also supported by the launch of the Economic Growth Recovery Plan (EGRP), and a significant improvement in the World Bank's Ease of Doing Business ranking, moving up 24 places to 145th from 169th in the previous year.

However, the Nigerian economy still faces obvious vulnerabilities. The return to growth was somewhat driven by an improvement in oil prices. In spite of moderate revenue growth, non-oil GDP is yet to show significant growth and fiscal deficit is rising, in the face of massive capital expenditure needs. The banking sector weakness coupled with rising public debt means credit to the private sector shrunk by 3% in 2017.

The long period of recession and current vulnerabilities have led to a serious unemployment problem, with approximately 40% of the workforce, or 34 million Nigerians, either unemployed or underemployed in 2017. In addition to this, over 85 million Nigerians live below the national poverty line, as Nigeria underperformed in the 2017 World Bank's HDI Report. This points to the need for an increased focus on inclusive economic growth; to provide employment opportunities and lift millions of Nigerians out of poverty.

Unemployment in Nigeria

Unemployment is Nigeria's biggest socioeconomic challenge. According to the National Bureau of Statistics (NBS),

unemployment rose from 12.1% in Q1 2016 to 18.8% in Q3 2017, while underemployment has grown from 19.1% in Q1 2016 to 21.2% in Q3 2017. This means 40% of all Nigerians are either unemployed or underemployed.

In Lagos State, 2.3 million in a total workforce of 7.1 million are either unemployed or underemployed, resulting in an unemployment rate of 32.7%, 7% lower than the national average, and the 10th lowest rate in the country. While Lagos is outperforming the national average, downside risks remain, and the state lost 300,000 jobs in Q1 2017, which worsened the unemployment rate from 28% to 32.7% in Q3, 2017.

Though Nigeria emerged from recession in Q2 2017, the road to inclusive growth is long. It will require collaborative efforts between governments at all levels, and the private sector to create jobs for millions of Nigerians, especially those under the age of 35.

With a minimum of 3 million people entering the workforce every year, it means the Nigerian economy must deliver at least 6 million jobs annually, if we are to halve the number of unemployed and underemployed people, in the next 5 years.

Lagos State Employment Trust Fund "LSETF" or "The Fund" in 2017:

At the beginning of 2017, the LSETF set out to

Part of LSETF's strategic intervention is to facilitate strategic and structured business support to Micro, Small and Medium Enterprises (MSMEs) by providing pre-disbursement training to equip beneficiaries with business management tools.

achieve its vision of creating employment and entrepreneurship opportunities for all Lagos residents in the following ways:

1. ENTREPRENEURSHIP

MSME (Medium, Small and Micro Enterprise) Loan Program: LSETF received over 30,000 loan applications in 2017 and approved 8,229 applicants totalling N5.98billion out of which 6,212 beneficiaries have drawn down N5.07billion. In addition to the provision of loans, we also trained a total of 6,972 successful applicants in 2017. This ensured we fulfilled our mandate of deepening business management capabilities and financial literacy, in addition to the provision of capital, needed by small businesses.

During the year, we launched our Micro-Enterprise Start-up loan category, to serve prospective entrepreneurs who had received vocational or entrepreneurship training but lacked the required capital to start their businesses.

2. EMPLOYABILITY

The Lagos State Employability Support Project: The Fund partnered with the United Nations Development Programme (UNDP) to create "The Lagos State Employability Support Project". Under this project, UNDP committed \$1million

while the LSETF provided a matching grant of \$3 million, through which 10,000 skilled persons will be trained and placed in key sectors such as Manufacturing, Construction, Entertainment, and Hospitality. The project's application and placement portal (www.lsesp.ng) was launched in October 2017 and received 10,264 applications. Training and placement will commence in 2018.

3 INTERVENTIONS

- I. One of our strategies to create jobs is to support innovation driven enterprise ecosystems, which consists of businesses that show a geometric growth trajectory, usually driven by the use of advanced technology.
- II. We launched our Innovation-Driven Enterprise Program tagged "Lagos Innovates" in December 2017. Lagos Innovates is a series of programs designed for the benefit of technology and innovation-driven startups in Lagos State.
- III. By providing access to high quality infrastructure, learning, capital and networks, Lagos Innovates will cement Lagos' position as the leading destination for startups in Africa.

Our website for Lagos Innovates; www.lagosinnovates.ng was launched with the following programs:

- a. **Infrastructure support voucher program** - Our vouchers will support the highest potential founders and/or startups in Lagos State at the very early stages of their ventures (ideation to very early revenue) by facilitating access to well-equipped workspaces and learning.
- b. **Hub Loans** – We recognize the vital role that co-working spaces, incubators and hubs play in the Lagos startup ecosystem. By taking a community-focused approach, and through their programs, mentorship, networks, resources, and co-working spaces, hubs and incubators in Lagos help to catalyze growth opportunities for high potential entrepreneurs and startups. Thus, our Hub Loan program is available to operators who are looking to fund expansion or improvement of their existing facilities at current sites, or to increase their number of

locations, at very attractive terms; zero percent interest for four years.

- c. Event Sponsorship** – Lagos Innovates offers co-sponsorship for events and activities that are aimed at supporting network-building, knowledge-sharing, collaboration and marketing for Lagos-based founders and startups. We understand that these ecosystem-building initiatives are important for value-creation within the Lagos tech ecosystem and believe that they are an important way to propagate specific tech- or innovation-focused entrepreneurial learning and development.

4. PROMOTIONS

The Fund promoted entrepreneurship in Lagos through partnerships with the Nigerian Export Promotion Council and the Nigerian American Chamber of Commerce to support initiatives and hold workshops aimed at promoting “Made in Lagos” goods. In addition, the Fund held a workshop for beneficiaries in partnership with the Lagos State Public Procurement Agency (LASPPA), to inform and educate on the processes involved and opportunities for participating in Government procurement.

OUR KEY ENABLERS:

SUSTAINABLE FUNDING

United Nations Development Program “UNDP”: During the year, UNDP committed \$1 million to the Lagos State Employability Support Project. The sum of \$500,000 was utilized for the project in 2017, while the balance will be utilized in 2018.

Wale Raji Foundation: The Fund partnered with Hon. Wale Raji, a member of the Federal House of Representatives, representing Epe Federal Constituency, to provide loans to his constituents. Under this program, both LSETF and Hon. Raji contributed N10 million each. While LSETF is solely responsible for evaluating the applicants, the Wale Raji Foundation will be responsible for paying the 5% interest on the loans to ensure that the loans are provided at no interest rate.

EFFECTIVE PARTNERSHIPS

Business Process Outsourcing: The Fund facilitated the selection of Lagos State as the location for Tek Expert’s Customer Service &

Support Centre for Africa, which is designed to serve as a service hub for one of the leading global technology companies. The company will commence operation in June 2018 with 200 employees and plans to expand to 750 people by 2020. The Fund continues to actively encourage large scale international businesses to consider Lagos as an attractive destination. This in turn ensures that high quality jobs are created at scale, within the state.

PROACTIVE STAKEHOLDER ENGAGEMENT & COMMUNICATION

The Fund completed a grassroots visitation to 20 Local Governments in 2017. The campaign engaged artisans, traders and community leaders at grassroots level with a combined turnout of over 22,510 residents at the various engagements.

OTHER ACTIVITIES OF THE BOARD

In 2017, the Board of Trustees held 14 meetings while the Board Committees held 33 meetings overall:

1. Audit and Risk Committee (6 meetings)
2. Credit and Investment Committee (13 meetings)
3. Governance Committee (10 meetings)
4. Stakeholders Committee (3 meetings)
5. Joint Governance and Credit & Investment Committee (1 meeting)



Mrs. Ifueko M. Omoigui Okauru, MFR
Chairman, Board of Trustees
FRC/2017/ICAN/00000014169
22 May, 2018.



Akintunde Oyebo
Executive Secretary
FRC/2017/CIANG/00000016499
22 May, 2018.

Statement of trustees' responsibilities in relation to the preparation of financial statements

For the year ended 31 December 2017



The Trustees accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Public Sector Accounting Standards (IPSAs) and in the manner required by the Financial Reporting Council (FRC) of Nigeria Act, 2011.

The Trustees further accept responsibility for maintaining adequate accounting records as required by the Lagos State Public Finance Management Laws, Laws of the Federation of Nigeria, 2004 and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

The Trustees have made an assessment of the Fund's ability to continue as a going concern and have no reason to believe that the Fund will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF TRUSTEES BY:



Mrs. Ifueko M. Omoigui Okauru, MFR
Chairman, Board of Trustees
FRC/2017/ICAN/00000014169
22 May, 2018.



Akintunde Oyebo
Executive Secretary
FRC/2017/CIANG/00000016499
22 May, 2018.

Board Audit and Risk Committee Report

for the year ended 31 December, 2017

The Audit and Risk Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2017, which summarizes its activities for the year.

Functions and Responsibilities

The principal functions and responsibilities of the Audit and Risk Committee include the following:

- i. Overseeing the integrity of the financial statements and financial reporting process;
- ii. Monitoring choice of accounting policies and principles;
- iii. Overseeing the activities, hiring, performance and independence of the external and internal audit function;
- iv. Overseeing the effectiveness of the system of internal controls, accounting and operating procedures;
- v. Establishing policy standards and guidelines

- vi. for risk assessment and management;
- vi. Ensuring compliance with legal and regulatory requirements, including completeness of disclosures; and
- vii. Overseeing ethics, and whistle-blower hotlines.

Composition

The Audit and Risk Committee consists of the following members:

- i. Funmi Dawodu (Chairman);
- ii. Tunde Bank-Anthony;
- iii. Michael Popoola Ajayi; and
- iv. The Hon. Commissioner, Lagos State Ministry of Finance - Mr. Akinyemi Ashade.

Meetings

The Audit and Risk Committee held the following meetings during the year under review:

- i. 1st meeting held on 27th January, 2017;
- ii. 2nd meeting held on 22nd February, 2017;
- iii. 3rd meeting held on 10th April, 2017;
- iv. 4th meeting held on 1st June, 2017;
- v. 5th meeting held on 10th August, 2017; and

vi. 6th meeting held on 6th October, 2017.

Activities

Presented below is a summary of the significant matters considered by the Audit and Risk Committee, at the above-listed meetings:

i. LSETF Trial Balance and Management Account for 2016

The Committee carried out a review of the Fund's Trial Balance and Management Account for 2016. The said documents were subsequently presented to the Board.

ii. LSETF 2016 Financial Statements

The Committee carried out an extensive review of the Fund's 2016 audited Financial Statements. The Financial Statements were subsequently presented to the Board for approval.

iii. Selection of Insurance Companies and Brokers

The Committee considered and made recommendations to the Board in respect of the insurance companies and brokers, who were to provide insurance cover to LSETF's beneficiaries. The Committee reviewed the mechanisms for selection of the insurers as well as the quotations of the insurers, and made recommendations to the Board.

iv. Enterprise Risk Management Framework

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Fund's Enterprise Risk Management Framework. The Committee also carried out a review and subsequently made recommendations to the Board, for approval of the Fund's Enterprise Risk Management register, as presented by the Risk Monitoring Unit.

v. Interview and Hiring of an Independent External Auditor

The committee oversaw the interview, selection and hiring of an independent External auditor - KPMG Professional Services

vi. LSETF Internal Control Policy

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Fund's Internal Control.

vii. Consideration of Internal Audit Charter

The Committee received from the Internal audit unit, a draft Internal Audit Charter and draft Audit Policy. The Committee carried out a review of the said documents, made some amendments and subsequently presented same to the Board for approval.

viii. Internal Audit Reports

The Committee considered at different times, the internal audit reports presented by the Head of Internal Audit, and presented the reports to the Board. The internal audit reports comprised of findings from the review of the loan application process, the liaison offices, and the post-payment review of vouchers.

ix. Performance Appraisal for the Head of Internal Audit

The Committee conducted an appraisal of the performance of the Head of Internal Audit, prior to confirmation of the latter's employment. The Committee's recommendations were subsequently presented to the Board.

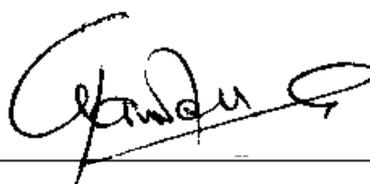
x. Consideration of the Internal Audit Plan

The Committee considered the internal audit plan as presented by the Head of Internal Audit, and the said internal audit plan was subsequently presented to the Board for approval.

xi. Consideration of the 2017 External Audit Plan

The Committee considered the 2017 external audit plan as presented by the Fund's external auditors, and the said external audit plan was subsequently presented to the Board for approval.

Signed on behalf of the Audit and Risk Committee:



Funmi Dawodu, FCA

Chairman

FRC/2017/ICAN/0000016687

22 May, 2018.

Board Credit and Investment Committee Report

for the year ended 31 December, 2017

The Credit and Investment Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2017, which summarizes its activities for the year.

Functions and Responsibilities

The principal functions and responsibilities of the Credit and Investment Committee include the following:

- i. Determining appropriate credit and investment policies and procedures;
- ii. Determining the extent to which funds raised will be disbursed directly to beneficiaries as credit or through Fund Managers subject to the rules guiding funds raised or sourced;
- iii. Overseeing the Fund's credit and investment risks by ensuring that appropriate control environment and reporting process are in place to govern the management of credit and investment risks;
- iv. Provide oversight for the Fund's investment activities and periodically review and evaluate the Fund's approval policy for investments;
- v. Oversee significant treasury matters such as capital structures, liquidity and fixed income;
- vi. Overseeing the management of the Funds' investment portfolio;
- vii. Recommend to the Board all viable credit and investment proposals, related application and execution of related instruments; and
- viii. Determine key performance indicators for the counter party financial institutions that may be engaged by the Board for disbursement to ensure they meet the requisite standard.

Composition

The Credit and Investment Committee consists of the following members:

- i. Bilikiss Adebisi-Abiola (Chairman);
- ii. Tunde Bank-Anthony;
- iii. Orondaam Otto; and
- iv. The Hon. Commissioner, Lagos State Ministry of Finance - Mr. Akinyemi Ashade.



Meetings

The Credit and Investment Committee held the following meetings during the year under review:

- i. 1st meeting held on 16th January, 2017;
- ii. 2nd meeting held on 2nd February, 2017;
- iii. 3rd meeting held on 17th February, 2017;
- iv. 4th meeting held on 16th March, 2017;
- v. 5th meeting held on 30th March, 2017;
- vi. 6th meeting held on 6th April, 2017;
- vii. 7th meeting held on 10th April, 2017;
- viii. 8th meeting held on 12th May, 2017;
- ix. 9th meeting held on 15th May, 2017;
- x. 10th meeting held on 12th June, 2017;
- xi. 11th meeting held on 10th July, 2017;
- xii. Joint meeting with the Governance Committee held on 24th August, 2017
- xiii. 13th meeting held on 19th October, 2017; and
- xiv. 14th meeting held on 5th December, 2017.

Activities

Presented below is a summary of the significant matters considered by the Credit and Investment Committee, at the above-listed meetings:

i. Review of the Fund's Investment Portfolio

The Committee reviewed the Fund's investment portfolio from time to time, and made recommendations to the Board as

appropriate. The Committee made recommendations to the Board with respect to LSETF's funds managed by commercial banks and discount houses.

ii. Assessment Tool for ME Startups

The Committee conducted an extensive review of the assessment tool for loan applicants under the ME Startups segment, a segment created to cater for applicants (especially young entrepreneurs) who could not compete or access loans under the regular guidelines, due to requirements such as the need to show an existing business, track record and turnover.

The assessment tool as amended was consequently recommended to the Board for approval.

iii. Review of Loan Applications

The Committee had the responsibility of reviewing SME, ME and ME Startup loan applications. The Committee made recommendations to the Board for approval or rejection of loan applicants. Committee reviews were carried out after applications had been marked by the Fund's beneficiary selection partner; PwC, and further screened by Management, as well as the Fund's business development support partners.

iv. Selection of Partners for the Pilot Employability Scheme

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the framework for the LSETF Employability Support program as well as the proposals from interested training partners for the program.

v. Review of Beneficiaries' Selection Process

The Committee conducted different reviews of the beneficiaries' selection process, in order to improve the existing process, and shorten the period between submission of application to disbursement. The credit approval threshold as well the loan review methodology was reviewed in order to

improve the turnaround time for loan approvals and also to enable the Committee and the Board focus on its oversight functions.

vi. Terms of Reference for the Management Credit Committee

As part of the Board's effort to improve the beneficiaries' selection process, a Management Committee was inaugurated and given the mandate to approve certain loans. The Terms of Reference for this Management Committee was reviewed extensively by the Board Credit and Investment Committee, and subsequently recommended to the Board for approval.

vii. Blacklisting Policy

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Fund's policy for blacklisting fraudulent applicants, loan defaulters, and other persons, from accessing the Fund's interventions programs.

viii. Credit Risk Management

The Committee reviewed the Fund's loan portfolio from time to time, and the Committee received periodic reports on the Fund's credit loss ratio and portfolio at risk.

ix. The Lagos Innovates Product Paper

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Lagos Innovates Product Paper, presented by Management.

Signed on behalf of the Credit and Investment Committee



Bilikiss Adebisi-Abiola

Chairman
22 May, 2018.

Board Governance Committee Report

for the year ended 31 December, 2017



The Governance Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2017, which summarizes its activities for the year.

Functions and Responsibilities

The principal functions and responsibilities of the Governance Committee include the following:

- i. Developing and maintaining an appropriate corporate governance framework for the Fund;
- ii. Developing the ecosystem within which the Fund will operate;
- iii. Recommending proposals for the remuneration of the Board for presentation to the Governor;
- iv. Reviewing and making recommendations to the Board for the overall remuneration and benefits policy for employees of the Fund;
- v. Assisting the Board to ensure the proper reporting and disclosure of the state of affairs of the Fund to the Governor, Accountant-General and other stakeholders;
- vi. Developing strategic frameworks and plans for the Fund;
- vii. Overseeing the finance and human resource management functions;
- viii. Overseeing the financial strategies and objectives of the Fund regarding financial performance and compliance with

- ix. applicable financial regulatory requirements; and
- ix. Ensuring optimal performance of the Board towards achieving its mandate as enshrined in the laws governing the operation of the Fund.

Composition

The Governance Committee consists of the following members:

- i. Ayodele Martins (Chairman);
- ii. Funmi Dawodu;
- iii. Bilikiss Adebisi-Abiola; and
- iv. The Hon. Commissioner, Lagos State Ministry of Wealth Creation & Employment - Mr. Tunde Duros inmi-Etti

Meetings

The Governance Committee held the following meetings during the year under review:

- i. 1st meeting held on 24th January, 2017;
- ii. 2nd meeting held on 1st February, 2017;
- iii. 3rd meeting held on 13th March, 2017;
- iv. 4th meeting held on 20th April, 2017;
- v. 5th meeting held on 11th May, 2017;
- vi. 6th meeting held on 6th July, 2017;
- vii. Joint meeting with the Credit and Investment Committee held on 24th August, 2017;
- viii. 8th meeting held on 10th October, 2017;
- ix. 9th meeting held on 14th November, 2017;
- x. 10th meeting held on 7th December, 2017; and
- xi. 11th meeting held on 29th December, 2017.

Activities

Presented below is a summary of the significant matters considered by the Governance Committee, at the above-listed meetings:

i. LSETF Accounting Policy and the Payment Approval Authority and Process

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Fund's Accounting Policy as well as the Fund's Payment Approval Authority and Process.

ii. LSETF Procurement Policy

At a meeting attended by the General Manager of the Lagos State Public Procurement Agency, the Committee reviewed the Procurement Policy proposed for adoption by LSETF, and afterwards, the Committee recommended the reviewed policy for Board approval.

iii. LSETF Human Resource Policy

The Committee carried out an extensive review of the Fund's Human Resource Policy, and consequently presented the said policy (as amended), to the Board for approval.

iv. Selection of the Fund's Startup/Innovation Consultant

The Committee received presentations, conducted interviews, and evaluated candidates for the role of Startup/Innovation Consultant. Consequently, the Committee made a recommendation to the Board for approval of the preferred candidate, Amari Ventures.

v. Recruitment of the Director of Finance & Corporate Services

After the short-listing process conducted by the Fund's human resource consultant, and interviews conducted by a panel constituted for that purpose, the Committee considered the profiles and qualifications of 4 (Four) candidates for the role of Director of Finance and Corporate Services.

The Committee accepted the panel's recommendation on the preferred candidate (Mr. Rahman Akinwonmi), and presented same for Board approval.

vi. LSETF Travel Policy

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Fund's Travel Policy, which contained schedules of proposed estacode allowances for Board members and staff, in respect of local and international travels.

vii. Cash Utilization

Due to the funding shortfall occasioned in 2017, the Committee reviewed at different times, the proposed plans presented by Management for utilization of the existing cash balances on the Fund's programs and operating expenses.

viii. Budget Monitoring

In August 2017, the Committee received from Management an interim performance report on the 2017 budget, and the said report was consequently presented to the Board.

ix. Terms of Reference for the Fund's Monitoring and Evaluation Consultant

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the Terms of Reference for the Monitoring and Evaluation consultant engaged to conduct an assessment of the Fund's impact.

x. Consideration of the Success Fee Proposal for Fundraising Consultants

The Committee carried out a review and subsequently made recommendations to the Board, for approval of the proposed fee structure presented by Management in respect of the fundraising consultants engaged by LSETF.

xi. Trustees' Conflict of Interest Policy

The Committee reviewed the Conflict of Interest Policy developed for the Board by the Board Secretaries, and the Policy was subsequently presented to the Board for approval.

xii. Executive Secretary's Performance Appraisal for 2016

The Committee conducted an appraisal of the Executive Secretary's performance for the year 2016, and the Committee's assessment was consequently presented to the Board.

xiii. 2018 FY Budget

The Committee carried out an extensive review of the Fund's budget for the 2018 financial year. The revised budget was subsequently presented to the Board and the Lagos State House of Assembly.

Signed on behalf of the Governance Committee:



Ayodele Martins
Chairman
22 May, 2018.



Board Stakeholders Committee Report

for the year ended 31 December, 2017



The Stakeholders Committee of the Lagos State Employment Trust Fund (LSETF) Board of Trustees is pleased to present its report for the year ended 31 December 2017, which summarizes its activities for the year.

Functions and Responsibilities

The principal functions and responsibilities of the Stakeholders Committee include the following:

- i. Identification, engagement and management of stakeholders and stakeholder groups relevant to the Fund;
- ii. Determining how stakeholder/media enquiries are to be handled and maintaining a broad overview of strategic issues that may be of interest to specific stakeholders;
- iii. Building credibility, inspiring commitment and creating stakeholder support for the Fund; Developing strategy for advocacy and

interaction within Lagos State and relationships with other States and the Federal Government.

- vi. Determining the quantum, nature and source of funds to be raised to meet the Funds mandate, as input into the overall strategic plan of the Fund; Raising of Funds from stakeholders; and
- vii. Redressing stakeholders and donor complaints.

Composition

The Stakeholders Committee consists of the following members:

- i. Michael Popoola Ajayi (Chairman);
- ii. Ayodele Martins;
- iii. Orondaam Otto; and
- iv. The Hon. Commissioner, Lagos State Ministry of Wealth Creation & Employment - Mr. Tunde Dusrosinmi-Etti.

Meetings

The Stakeholders Committee held the following meetings during the year under review:

- i. 1st meeting held on 2nd February, 2017;
- ii. 2nd meeting held on 4th April, 2017; and
- iii. 3rd meeting held on 22nd August, 2017.

Activities

Presented below is a summary of the significant matters considered by the Stakeholders Committee, at the above-listed meetings:

I. Public Service Stakeholders Meeting Plan

The Committee carried out a review and

made recommendations to the Board, with respect to LSETF's proposed meeting with the MDAs in Lagos state, in order to familiarize the said MDAs with LSETF's strategy.

ii. LSETF Stakeholders Engagement Plan

The Committee carried out a review and made recommendations to the Board, for approval of the LSETF's Stakeholders Engagement Plan, which featured a series of stakeholder engagements across the 20 local government areas in Lagos state.

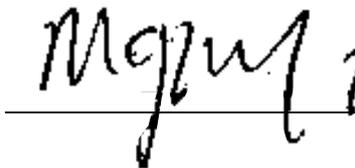
iii. Framework for LSETF Brand Ambassadors

The Committee carried out a review and made recommendations to the Board, for approval of the framework for LSETF's brand ambassadors. The strategy for the Fund's engagement with the brand ambassadors was to have a pool of influential persons who the Fund could give sponsorship and strategic non-monetary support in exchange for the ambassadors' appearances at LSETF activities, and promotion on social media.

iv. Consideration of 2017 Fundraising Plan

The Committee carried out a review and made recommendations to the Board, for approval of the Fund's 2017 fundraising plan.

Signed on behalf of the Stakeholders Committee:



Michael Popoola Ajayi
Chairman
22 May, 2018.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Lagos State Employment Trust Fund



To the Board of Trustees of the
Lagos State Employment Trust Fund
Report on the Audit of the Financial
Statements

Opinion

We have audited the financial statements of Lagos State Employment Trust Fund ("the Fund"), which comprise the statement of financial position as at 31 December, 2017, statement of financial performance, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 23 to 53.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December, 2017, and of its financial performance and its cash flows for the period then ended in accordance with International Public Sector Accounting Standards (IPSAS) and in the manner required by the Lagos State Employment Trust Fund Law 2016 and the Financial Reporting Council (FRC) of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the

audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Trustees are responsible for the other information. The other information comprises the Corporate information, Trustees' report, Statement of Trustees' responsibilities and Other national disclosures but does not include the financial statements and our audit report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with

the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Trustees for the Financial Statements

The Trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with IPSAS and in the manner required by the International Public Sector Accounting Standards (IPSAS) and in the manner required by the Lagos State Employment Trust Fund Law 2016 and the Financial Reporting Council (FRC) of Nigeria Act, 2011.

In preparing the financial statements, the Trustees are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is

higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.
- Conclude on the appropriateness of the Trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Signed:



Oluwafemi O. Awotoye, FCA
FRC/2013/ICAN/0000001182
For: KPMG Professional Services
Chartered Accountants
09 July, 2018.

Statement of financial performance

For the year ended 31 December, 2017

	Notes	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>			
Revenue			
Interest Income	15	321,458	245,572
Grant Income	16	38,240	-
Other Income	17	7,387	5
Total revenue		367,085	245,577
Expenses			
Amortisation of intangible assets	9(b)	(512)	-
Depreciation	10	(99,706)	(20,594)
Programs Expenses	18	(1,450,806)	(5,948)
Personnel expenses	19	(359,408)	(34,074)
Other Operating Expenses	20	(473,718)	(317,262)
Total operating expenses		(2,384,150)	(377,878)
Deficit from operations		(2,017,065)	(132,301)
Gain on available-for-sale securities	5(a)	-	31,950
Reclassification to the statement of financial performance on disposal	5(a)	(31,950)	-
Performance for the year		(2,049,015)	(100,351)

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

As at 31 December, 2017

	Notes	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>			
ASSETS			
Cash and Cash Equivalents	4	3,273,074	1,881,904
Investment Securities	5	-	4,062,301
Loans and Advances	6	3,018,735	-
Prepayments	7	51,066	38,232
Other Assets	8	520,915	38,943
Intangible Assets	9	96,034	108,135
Property and Equipment	10	288,959	311,159
Total assets		7,248,783	6,440,674
LIABILITIES			
Managed Funds	11	5,166	-
Unearned Income	12	124,154	-
Other Liabilities and Accruals	13	118,829	141,025
Total liabilities		248,149	141,025
EQUITY			
Capital Contribution	14	9,150,000	6,400,000
Deficit from Operations		(2,149,366)	(132,301)
Other Reserves	14 (d)	-	31,950
TOTAL EQUITY		7,000,634	6,299,649
Total Liabilities & Equity		7,248,783	6,440,674

The financial statements were approved by the Board of Trustees on 22 May, 2018 and signed on their behalf by



Mrs. Ifueko Omoigui-Okauru, MFR
Chairman, Board of Trustees
FRC/2017/ICAN/00000014169



Mr. Akintunde Oyebo
Executive Secretary
FRC/2017/CIANG/00000016499

Additionally certified by:



Mr. Rahman Akinwonmi
Director, Finance and Corporate Services
FRC/2013/ICAN/00000002759

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets/Equity

for the year ended 31 December, 2017

<i>In thousands of Naira</i>	Capital contribution	Other reserves	Accumulated Deficit	Total equity
Balance as at 1 January, 2017	6,400,000	31,950	(132,301)	6,299,649
Capital contribution - Lagos State Government	2,750,000	-	-	2,750,000
De-recognition of fair gain on available-for-sale securities	-	(31,950)	-	(31,950)
Deficit from operations	-	-	(2,017,065)	(2,017,065)
Balance as at 31 December, 2017	9,150,000	-	(2,149,366)	7,000,634
<i>In thousands of Naira</i>	Capital contribution	Other reserves	Accumulated Deficit	Total equity
Balance as at 1 January, 2016	-	-	-	-
Capital contribution - Lagos State Government	6,250,000	-	-	6,250,000
Takeoff grant - Lagos State Government	150,000	-	-	150,000
Valuation gain on available-for-sale securities	-	31,950	-	31,950
Deficit from operations	-	-	(132,301)	(132,301)
Balance as at 31 December, 2016	6,400,000	31,950	(132,301)	6,299,649

The accompanying notes are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December, 2017

<i>In thousands of Naira</i>	Notes	31-Dec-17	31-Dec-16
Cash flows from operating activities			
Deficit from operations		(2,017,065)	(132,301)
Adjustments for non-cash items:			
Amortisation	9	30,550	-
Depreciation	10	99,706	20,594
Allowance for Impairment	6(d)	781,785	-
Other Income	17(a)	(4,972)	-
Grant Income	16	(38,240)	-
Interest income on investments	15	(321,458)	(245,572)
		(1,469,694)	(357,279)
Net cash flow from operating activities before changes in operating assets and liabilities			
Changes in prepayments	22(i)	(12,835)	(38,232)
Changes in other current assets	22(ii)	(481,972)	(38,943)
Changes in Loans and Advances	22(iii)	(3,681,771)	-
Changes in Other Liabilities	22(iv)	(22,196)	141,025
Changes in Unearned Income	22(v)	162,250	
Total change in operating assets and liabilities		(4,036,524)	63,850
Net cash used in operating activities		(5,506,218)	(293,429)
Cash flows from investing activities			
Acquisition of investment securities	5(a)	(3,435,773)	(16,992,832)
Redemption of investment securities	5(a)	7,380,730	13,047,875
Acquisition of intangible assets	9	(18,449)	(108,135)
Acquisition of property and equipment	10	(77,506)	(331,753)
Interest received on Investment Securities	5(a)	250,511	160,178
Interest received on Deposits	15(a)	40,375	-
Net cash from/(used in) investing activities		4,139,888	(4,224,667)
Cash flows from financing activities			
Capital contribution	14(a)	2,750,000	6,400,000
Managed Funds	11(a)	7,500	-
Net cash from financing activities		2,757,500	6,400,000
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	4	1,881,904	-
Net increase in cash and cash equivalents		1,391,170	1,881,904
Cash and cash equivalents at 31 December	4	3,273,074	1,881,904

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December, 2017

Notes to the financial statements

for the year ended 31 December, 2017

1. Reporting entity

The Lagos State Employment Trust Fund ("LSETF" or "the Fund"), was established by The Lagos State Employment Trust Fund Law 2016 to provide financial support to residents of Lagos State, for job, wealth creation and to tackle unemployment. LSETF serves as an instrument to inspire the creative and innovative energies of all Lagos residents and reduce unemployment across the State. The Fund has the mandate to directly invest N25Billion in helping Lagos residents grow and scale their Micro Small and Medium Enterprises ("MSMEs") or acquire skills to get better jobs. LSETF will focus on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State.

The financial statements of the Lagos State Employment Trust Fund (LSETF) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Trustees on 22 May 2018. LSETF is a trust fund established in 2016 by a law of the Lagos State House of Assembly domiciled in Nigeria. The registered office is located at 16, Billings Way, Oregun Ikeja, Lagos.

2 Basis of preparation and statement of compliance with International Public Sector Accounting Standards

(a) Basis of preparation

These financial statements have complied with the International Public Sector Accounting Standards (IPSAs) for accrual basis of accounting issued by International Public Sector Accounting Standards Boards (IPSAB) and Financial Reporting Council (FRC) of Nigeria Act, 2011. The measurement base applied is historical cost basis.

The financial statements have been prepared on a going concern basis and the accounting policies have been consistently applied throughout the period. The financial statements were approved by the Board of Trustees on the 22 May, 2018.

(b) Functional and presentation currency

The financial statements are presented in Nigerian currency (Naira) which is the Fund's functional currency. Except otherwise indicated, financial information presented in Naira have been rounded to the nearest thousand, unless otherwise indicated.

(c) Going concern

The Fund's Trustees have made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, The Trustees are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements have been prepared on the going concern basis.

(d) Use of estimates and judgments

The preparation of the Fund's financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Fund's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Fund as lessee

The Fund leased the office space where it operates. The fund has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it does not retain all the significant risks and rewards of ownership of these office space and accounts for the contracts as operating leases.

Estimates and assumptions

Property, Plant and equipment

The Fund carries its property, plant and equipment at cost in the Statement of financial position. Estimates and

Notes to the financial statements

for the year ended 31 December, 2017

assumptions made to determine their carrying value and related depreciation are critical to the Fund's financial position and performance. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of the assets are determined by management at the time the asset is acquired and reviewed periodically. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

Impairment allowance

Assets accounted for at amortised cost are evaluated for impairment on a basis described in the accounting policy 3.6. In calculating impairment allowance, assets are categorized into individually impaired and, collectively impaired. In categorizing assets into whether individually or collectively impaired, management exercises some degree of judgment regarding what events/criteria the loans to be measured against. The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received.

In estimating these cash flows, management makes judgments about a counterparty's financial situation. Each impaired assets is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed by the risk management function.

Collectively assessed impairment allowance cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In order to estimate the required allowances, assumptions are made to define the way inherent losses are modelled and to determine required input parameters, based on historical experience or benchmark (when there is no sufficient historical data). The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

3. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. They have been applied consistently for similar transactions, other events and conditions unless otherwise stated.

3.1 Property and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. The cost of equipment comprises their purchase cost and any incidental costs of acquisition. For assets acquired through non-exchange (e.g. donations to the Fund) the cost represents the fair value of the acquired items.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(iii) Depreciation

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives.

Notes to the financial statements

for the year ended 31 December, 2017

The estimated annual rates of depreciation are as follows:

	Percentage (%)
Furniture and equipment	20
Office equipment	25
Motor vehicles	25
Computer equipment	25
Leasehold improvements	Over the term of the lease

The residual values, useful life and depreciation method are reviewed at each financial year end, and adjusted prospectively, if appropriate. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(i) Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income or expenditure when the asset is derecognised.

(ii) Leasehold improvements

The Fund recognises leasehold improvements as property, plant and equipment. The improvements are measured at cost on initial recognition, when it is probable that economic benefits will flow to the entity and the resources will be used for more than one financial period. Subsequent to initial recognition the asset is measured at cost less accumulated depreciation and amortisation in the same policy as other items of property, plant and equipment.

3.2 Intangible assets

(i) Recognition and measurement

Software not integral to the related hardware acquired by the Fund is stated at cost less accumulated amortisation and accumulated impairment losses.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Fund, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

(ii) Subsequent measurement

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that the asset is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life is 3 years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(iv) De-recognition:

An item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on the de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income or deficit in the year it was de-recognised.

Notes to the financial statements

for the year ended 31 December, 2017

3.3 Impairment of non-financial assets

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. An impairment loss is recognised for non-financial assets when the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Intangible assets not yet available for use are tested for impairment annually. All other assets are assessed for indicators of impairment at the end of each reporting period.

3.4 Revenue

Revenue recognition criteria for exchange and non-exchange transactions

Revenue from an exchange transactions is recognized to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. such revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment excluding taxes. Revenue from a non-exchange transaction recognised as an asset shall be recognised as a revenue except to the extent that a liability is also recognised in respect of the same inflow. Such revenue shall be measured at the amount of the increases in net assets recorded by the Fund.

The Fund's revenue comprises interest income, grant income, donations and other income:

Interest Income

For all financial instruments measured at amortised cost and interest-bearing financial assets, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of income or expenditure.

Grant Income

A number of the Fund's programs are supported by grants received from donor agencies (both local and international). If conditions are attached to a grant which must be satisfied before the Fund eligible to receive the contribution, recognition of the grant as revenue is deferred until those conditions are satisfied.

Grants are recognised in profit and loss on a systematic basis over the period in which the fund recognises as expenses the related costs for which the grants are intended to compensate.

Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Fund with no future related costs are recognised in the profit or loss in the period in which they are received or become receivable.

Donations

Donations collected are recognised as revenue when the Fund gains control, economic benefits are probable and the amount of the donation can be measured reliably.

Other Income

Other income represents income generated from sources other than interest and grant income. It includes income realised from income generated from current account balances and penal charges on late repayments by beneficiaries. Income is recognized when the right to receive the income is established.

3.5 Financial instruments

(a) Classification

The classification of financial instruments depends on the purpose for which the assets are acquired. The Fund classifies its financial assets in the following category:

Notes to the financial statements

for the year ended 31 December, 2017

- loans and receivables;
- available for sale.

The Fund's liabilities are classified in the following categories:

- other financial liabilities.

Classified as loans and receivables are loans and advances to beneficiaries, cash and bank balances and placements with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

Classified as Available for sale assets are investments in treasury bills.

Classified as other financial liabilities are other payables, unearned income and managed funds.

(b) Recognition

Financial instruments are initially recognised at fair value and on the trade date at which the Fund becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised when the rights to receive cash flows from the financial instruments have expired or where the Fund has transferred substantially all risks and rewards of ownership.

Available for sale securities

These financial assets are classified at initial recognition as available-for-sale. Available-for-sale financial assets are included in non-current assets unless LSETF intends to dispose of the investment within 12 months of the reporting date. Regular purchases and sales of financial assets are recognized at fair value on the trade-date and subsequently at fair value with any resultant fair value gains or losses recognised through the statement of changes net assets/equity. The fair values of quoted investments are based on current bid prices.

Realized gains and losses on sale of available-for-sale assets are recognized in the statement of financial performance as 'gains and losses from available-for-sale securities.'

Interest income is recognised in the statement of profit or loss using the effective interest method. Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When the investment is sold or redeemed, the gain or loss accumulated in equity is reclassified to income statement

Loans and receivables

Loans and advances to customers are initially measured at fair value.

Other financial liabilities:

Other financial liabilities are initially measured at fair value.

(c) Subsequent measurement

Available for sale financial instruments

Available for sale treasury bills are subsequently measured at their fair value, without any deduction for transaction costs it may incur on sale or other disposal.

Loans and receivables

Loans and receivables are subsequently measured at their amortised cost using the effective interest method (cost plus accrued interest) in the statement of financial position.

Other financial liabilities:

Other financial liabilities are subsequently measured at amortised cost.

(d) Derecognition of financial instruments

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria.

Notes to the financial statements

for the year ended 31 December, 2017

The Fund may enter into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. In transactions where the Fund neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Fund continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Any interest in transferred financial assets that is created or retained by the Fund is recognised as an interest income or interest expense in the surplus or deficit.

(e) Amortised cost measurement

The Fund derecognises a financial instrument when its contractual obligations are discharged or cancelled or expired. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(f) Fair value measurement

The Fund did not measure any assets or liabilities at fair value at each reporting date. However, fair values of financial instruments measured at amortised cost are disclosed. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
 - In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

3.6 Impairment of financial assets

The Fund first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

a) Individually assessed financial assets.

The Fund assesses at each reporting date whether there is an objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event'), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The following factors are considered in assessing objective evidence of impairment:

- evidence of default of contractual payment terms;
- there is an observable data indicating that there is a measurable decrease in the estimated future cash flows of the financial assets.

If there is objective evidence that an impairment loss on an account receivable has been incurred, the carrying

Notes to the financial statements

for the year ended 31 December, 2017

amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. The amount of the loss is the difference between the receivable carrying amount and the present value of the estimated cash flows expected to be received. Estimates of changes in future cash flows for financial assets are reflected and directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as the repayment of outstanding balance), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss under impairment charge for credit losses.

b) Collectively assessed financial assets

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Fund and historical loss experience or benchmark experience with credit risk characteristics similar to those in the Fund. Historical loss experience or benchmark experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist or entity specific situation to reflect the effects of conditions that are present in the benchmark but not in the Fund and vice versa. The methodology and assumptions used for estimating future cash flows will be reviewed regularly by the Fund to reduce any differences between loss estimates and actual loss experience.

3.7 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and placements with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost (cost plus accrued interest) in the statement of financial position.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are determined by discounting the expected cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Fund from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Fund recognises any impairment loss on the assets associated with that contract.

3.9 Other current assets and prepayments

Other receivables are carried at amortised cost using the effective interest rate less accumulated impairment loss. Prepayments are carried at cost less accumulated amortisation and impairment losses.

3.10 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the spot exchange rate at the reporting date. Non monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the spot exchange rate at the date on which the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit. Non-monetary assets and liabilities

Notes to the financial statements

for the year ended 31 December, 2017

denominated in foreign currencies that are measured at historical cost are translated to the functional currency using the exchange rate at the transaction date. Exchange differences on non-monetary assets are accounted for based on the classification of the underlying items.

3.11 Employee benefits

(a) Defined contribution plan

The Fund has a defined contribution plan.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in Income and Expenditure in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The Fund operates a defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The employer and the employee contributions are 10% and 8% respectively of the qualifying employee's salary. Obligations in respect of the Fund's contributions to the scheme are recognized as an expense in the surplus or deficit on an annual basis.

(b) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Fund has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

3.12 Expenditure

All expenses are accounted for on an accrual basis. The Funds expenses are classified into programs expenses and other operating expenses. Program expenses are expenses incurred wholly and exclusively for the direct actualization of the programs activities of the Fund while other operating expenses are mainly Secretarial and/or Office running expenses.

3.13 Contingent assets and liabilities

Contingent assets

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. Contingent assets are disclosed in the financial statements when they arise.

Contingent liabilities

Contingent liability is the probable obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Fund. However, they are recognised, if it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Contingent liabilities are disclosed in the financial statements when they arise.

3.14 Taxation

The income of LSETF is exempted from income tax based on the provisions of Section 23 (i) of the Companies' Income Tax Laws of Nigeria and the Section 26 of the Lagos State Employment Trust Fund Act/Bill.

3.15 Equity

Equity represents the sum of capital contribution and the deficit for the year transferred to equity.

Notes to the financial statements

for the year ended 31 December, 2017

4 Cash and cash equivalents

	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
Cash in Hand	26	3
Current account with Bank (see (a) below)	2,050,687	851,901
Deposits with financial institutions (see (b) below)	1,222,361	1,030,000
	3,273,074	1,881,904
Classified as:		
Current	3,273,074	1,881,904
Non-Current	-	-
	3,273,074	1,881,904

(a) Balance in the Fund's current accounts is further analysed as follows:

	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
Balance with Fulfillment Partner Banks	1,425,508	-
Other Bank Balances	625,179	851,901
	2,050,687	851,901

The amount with fulfillment partner banks represents the sum that is available for onward disbursement to beneficiaries who are yet to meet their conditions precedent to draw-down as at 31 December 2017 and repayments from loan beneficiaries. Disbursements will be made to beneficiaries as these conditions are met.

(b) Deposit with financial institutions include:

	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
FSDH Merchant Bank	-	1,030,000
Access Bank	1,222,361	-
	1,222,361	1,030,000

5 Investment securities (Fair value - AFS)

	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
Treasury bills measured at Fair value	-	4,062,301
	-	4,062,301
Classified as:		
Current	-	4,062,301
Non-Current	-	-
	-	4,062,301

(a) Movement in investment securities

	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>		
Balance at the beginning of year	4,062,301	-
Addition during the year	3,435,773	16,992,832
Gain on available for sale securities	-	31,950
Reclassification to the statement of financial performance on disposal	(31,950)	-
Interest Income	165,117	245,572
Interest income received	(250,511)	(160,178)
Redemption during the year	(7,380,730)	(13,047,875)
Balance as at year end	-	4,062,301

Notes to the financial statements

for the year ended 31 December, 2017

6 Loans and Advances

In thousands of Naira	31-Dec17	31-Dec16
Movement in loans and advances during the year		
Balance at the beginning of year	-	-
Loan disbursed during the year (see note (a) below)	4,530,042	-
Interest Earned (see note 15 (c) below)	115,905	-
Late Repayment Fees (see note 17(a))	4,972	-
	4,650,919	-
Repayments	(848,271)	-
	3,802,648	-
Impairment Charge (See Note (c) below)	(783,913)	-
Net Loan	3,018,735	-
Classified as:		
Current (ME Loans)	1,354,262	-
Non-Current (SME Loans)	1,664,473	-
	3,018,735	-

(a) Loan disbursed during the year is made up of the following:

	31-Dec-17	31-Dec-16
Small and medium enterprises	2,741,601	-
Micro-enterprises	1,780,783	-
Net loans disbursed for the women economic empowerment scheme (see note (b) below)	7,658	-
	4,530,042	-

(b) LSETF and Honourable Tasir Olawale Raji entered into a partnership called the "Women Economic Empowerment Scheme". The scheme was set up to provide loans to women who are residents of Epe LGA. Each party to the partnership agreement is required to contribute funds in equal proportion and bear the credit risk on the funds contributed.

(c) Movement in impairment charge on Loans and Advances during the year

Specific Allowance for Impairment		
Balance as at 1 January	-	-
Charge for the year	-	-
Balance as at 31 December	-	-
Collective Allowance for Impairment		
Balance as at 1 January	-	-
Charge for the year (note (d) below)	783,913	-
Balance as at 31 December	783,913	-
Total Impairment	783,913	-

(d) Impairment Charge

	31-Dec-17	31-Dec-16
SME and ME loans	779,657	-
LSETF's contribution to the women economic empowerment scheme	2,128	-
	781,785	-
Managed funds advanced to beneficiaries (see note 11 (a))	2,128	-
Impairment charge for the year	783,913	-

Notes to the financial statements

for the year ended 31 December, 2017

7 Prepayments

In thousands of Naira	31-Dec-17	31-Dec-16
Non Financial Assets		
Credit Insurance(see note(a)below)	29,778	-
Other Prepaid Insurance	3,873	3,512
Rent	7,778	31,050
Other Prepayments(see note(b)below)	9,637	3,670
	51,066	38,232
Classified as:		
Current	51,066	31,050
Non-Current	-	7,182
	51,066	38,232

- (a) Credit Insurance represents protection of the loan sum granted to beneficiaries against default arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries.
- (b) Other prepayments represents prepaid service charge, prepaid subscription, prepaid retainer fees and prepaid licence fees.

8 Other assets

In thousands of Naira	31-Dec-17	31-Dec-16
Financial Assets		
Balance in Joint Arrangement Account with UNDP (see note(a)below)	496,041	-
Advance Payments	15,248	-
Other Receivables(see note(b)below)	9,626	38,943
	520,915	38,943
Classified as:		
Current	520,915	38,943
Non-Current	-	-
	520,915	38,943

- (a) LSETF entered into a partnership agreement with United Nations Development Project (UNDP) for the funding of "The Lagos State Employability Support Project". This Project aims at training 10,000 people between the ages of 18 - 35 years in the manufacturing, health-care, construction, entertainment, garment making, hospitality and tourism sectors by 2019. The Partners agreed to contribute \$3,000,000 and \$1,000,000 respectively. As at 31st December 2017, LSETF and UNDP had contributed USD1,500,000.00 and USD500,000.00 respectively.

The movement in the balance in the Joint Arrangement Account with UNDP is as shown below:

In thousands of Naira	31-Dec-17	31-Dec-16
Balance, beginning of year	-	-
Contribution by LSETF	486,750	-
Contribution by UNDP (See note 12(b))	162,250	-
	649,000	-
Expenditure on project during the year	(152,959)	-
Balance, end of year	496,041	-

- (b) There was no impairment charge recognised on the receivables.

Notes to the financial statements

for the year ended 31 December, 2017

9 Intangible assets

(a) 31 December 2017

In thousands of Naira	Loan Application Software	Accounting Software & Others	Total
Cost:			
Balance as at 1 January 2017	108,135	-	108,135
Additions	-	18,449	18,449
Balance as at 31 December 2017	108,135	18,449	126,584
Amortisation:			
Balance as at 1 January 2017	-	-	-
Additions	(30,038)	(512)	(30,550)
Balance as at 31 December 2017	(30,038)	(512)	(30,550)
Carrying amounts			
Balance at 31 December 2017	78,097	17,937	96,034
31 December 2016			
Cost:			
Balance as at 1 January 2016	-	-	-
Additions	108,135	-	108,135
Balance as at 31 December 2016	108,135	-	108,135
Amortisation:			
Balance as at 1 January 2016	-	-	-
Additions	-	-	-
Balance as at 31 December 2016	-	-	-
Carrying amounts			
Balance at 31 December 2016	108,135	-	108,135

- (i) No leased asset is included in the above accounts.
(ii) There were no authorised or contracted capital commitments as at the reporting date.
(iii) There were no impairment losses on intangible assets during the year.
Intangible assets represent development cost with respect to the computer software i.e. the beneficiary selection software used for managing the loan beneficiaries' selection process and purchased software for the Fund's accounting function and, technological startup program.

(b) Amortisation

	31-Dec-17	31-Dec-16
Loan Application Software (see note (i) below)	30,038	-
Accounting Software & Others	512	-
Amortisation expense for the year	30,550	-

- (i) The amortization charge for Loan Application Software is classified as a part of the loan programs expense considering its direct relationship with the Fund's operations. See note 18(a).

Notes to the financial statements

for the year ended 31 December, 2017

10 Property and equipment

The movement on this account during the year was as follows:

31 December 2017

In thousands of Naira	Motor vehicles	Computer Equipment	Office Equipment	Furniture & Equipment	Leasehold Improvements	Total
Cost:						
Balance as at 1 January 2017	143,487	121,402	2,423	29,484	34,957	331,753
Additions	-	64,727	7,499	5,280	-	77,506
Balance as at 31 December 2017	143,487	186,129	9,922	34,764	34,957	409,259
Accumulated depreciation:						
Balance as at 1 January 2017	(8,406)	(3,275)	(35)	(2,192)	(6,686)	(20,594)
Additions	(35,872)	(41,295)	(1,871)	(5,926)	(14,742)	(99,706)
Balance as at 31 December 2017	(44,278)	(44,570)	(1,906)	(8,118)	(21,428)	(120,300)

Carrying amounts

Balance at 31 December 2017	99,209	141,559	8,016	26,646	13,529	288,959
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31 December 2016

Cost:						
Balance as at 1 January 2016	-	-	-	-	-	-
Additions	143,487	121,402	2,423	29,484	34,957	331,753
Balance as at 31 December 2016	143,487	121,402	2,423	29,484	34,957	331,753
Accumulated depreciation:						
Balance as at 1 January 2016	-	-	-	-	-	-
Additions	(8,406)	(3,275)	(35)	(2,192)	(6,686)	(20,594)
Balance as at 31 December 2016	(8,406)	(3,275)	(35)	(2,192)	(6,686)	(20,594)

Carrying amounts

Balance at 31 December 2016	135,081	118,127	2,388	27,292	28,271	311,159
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- (i) No leased asset is included in the above property and equipment accounts.
- (ii) There were no authorised or contracted capital commitments as at the reporting date.
- (iii) There were no impairment losses on any class of property and equipment during the year.
- (iv) There was no property and equipment pledged as security for borrowing as at 31 December 2017.
- (v) There are no capitalised borrowing costs related to the acquisition of property and equipment during the year.

Notes to the financial statements

for the year ended 31 December, 2017

11 Managed Funds

In thousands of Naira	31-Dec-17	31-Dec-16
Financial liabilities		
Managed Funds (see note (a) below)	5,166	-
	5,166	-
Classified as:		
Current	5,166	-
Non- Current	-	-
	5,166	-

(a) The movement in the Managed Funds is as shown below:

Balance as at beginning of year	-	-
Additions	7,500	-
Interest income on LSETF portion of Loan	(206)	-
Collective impairment on loan disbursed (see note 6 (d))	(2,128)	-
	5,166	-

(b) Managed Funds represent funds received from Honourable Tasir Olawale Raji under the women economic empowerment scheme, for loan disbursements to women who are residents of Epe LGA. The Fund and Honourable Wale Raji equally contribute funds for the programs and, bear the credit risk on their respective funds contributed. Honourable Wale Raji pays the interest due on the Fund's portion of the Loan in advance.

(c) The Utilisation of the managed funds is as follows:

In thousands of Naira	31-Dec-17	31-Dec-16
Funds disbursed during the year (see note 6 (b))	3,829	-
Funds yet to be disbursed	3,671	-
	7,500	-

12 Unearned income

In thousands of Naira	31-Dec-17	31-Dec-16
Financial liabilities		
Unearned Income on UNDP joint arrangement (see note (a) below)	124,010	-
Unearned Income on managed funds	144	-
	124,154	-
Classified as:		
Current	124,154	-
Non- Current	-	-
	124,154	-

(a) Unearned income on the arrangement with UNDP represents the portion of the grant received from UNDP for the Lagos State Employability Support Project, that is yet to be utilised.

(b) The movement in unearned income is as shown below:

In thousands of Naira	31-Dec-17	31-Dec-16
Contribution by UNDP (see note 8(a) above)	162,250	-
Income earned during the year (See note 16)	(38,240)	-
	124,010	-

Income earned during the year is 25% of N152,959,365 spent during the year based on UNDP's contribution ratio 1 for every 3 made by the Fund to the program.

Notes to the financial statements

for the year ended 31 December, 2017

13 Other liabilities and accruals

In thousands of Naira	31-Dec-17	31-Dec-16
Financial liabilities		
Due to fulfilment partners	19,509	-
Audit fees payable	9,500	-
Other payables (see note (a) below)	36,680	73,464
	65,689	73,464
Non-financial liabilities		
PAYE Payable	27	2,184
Withholding tax payable	30,371	37,579
Value added tax payable	17,386	20,899
Development levy payable (see (b) below)	5,356	6,899
	53,140	67,561
	118,829	141,025
Classified as:		
Current	118,829	141,025
Non- Current	-	-
	118,829	141,025

- (a) Other payables is made up of IT infrastructure payable, consultancy fee payable amongst others.
 (b) Development levy is a 1% deduction made by all agencies and parastatals from all payments to suppliers and contractors as mandated by the Lagos State Government.

14 Capital contribution

This comprises:

In thousands of Naira	31-Dec-17	31-Dec-16
Capital contribution from Lagos State Government (LASG) (see note (a) below)	9,000,000	6,250,000
Takeoff fund (see note (c) below)	150,000	150,000
	9,150,000	6,400,000

(a) The movement in Capital contribution is as shown below:

In thousands of Naira	31-Dec-17	31-Dec-16
Opening Balance	6,250,000	-
Capital Contribution by LASG (see note (b) below)	2,750,000	6,250,000
	9,000,000	6,250,000

- (b) LSETF received the sum of N2.75 billion as capital contribution from the Lagos State Government during the financial year. As at 31 December 2017, the Fund had received a total of N9bn from the Lagos State Government. The capital contribution is to be disbursed to the unemployed residents of Lagos State.
 (c) The take-off fund of N150 Million represents funds provided by the Lagos State Government to support the operational costs of setting up the Fund.
 (d) Other reserves consists of the fair value changes on available-for-sale investments which represents the excess of the fair value of the treasury bills investment over the carrying amount. The fair value gain on securities as at 31 December 2016 was N31.95 million.

The movement in other reserves is as shown below

In thousands of Naira	31-Dec-17	31-Dec-16
Opening balance	31,950	-
Fair value gain on available-for-sale securities	-	31,950
Reclassification to the statement of financial performance on disposal	(31,950)	-
	-	31,950

Notes to the financial statements

for the year ended 31 December, 2017

15 Interest income

In thousands of Naira	31-Dec-17	31-Dec-16
Investment Securities (See note (a) below)	205,492	245,572
Loans and Advances (See note (b) below)	115,966	-
	321,458	245,572

(a) Interest Income on Investment Securities

Treasury Bills (see note 5 (a) above)	165,117	245,572
Term deposits	40,375	-
	205,492	245,572

(b) Interest Income on Loans and Advances

Micro Enterprises	38,220	-
Small and Medium Enterprises	77,746	-
	115,966	-

16 Grant income

In thousands of Naira	31-Dec-17	31-Dec-16
Income from UNDP joint arrangement (see note 12 (a) above)	38,240	-
	38,240	-

17 Other income

In thousands of Naira	31-Dec-17	31-Dec-16
Late repayment fees (see note (a) below)	5,210	-
Miscellaneous Income	2,177	5
	7,387	5

Other income is made up of income earned on the Fund's current account balances with Banks and late repayment penalty charge

(a) Late repayment fees

In thousands of Naira	31-Dec-17	31-Dec-16
Accrued late repayment fees (see note 6)	4,972	-
Late repayment fees received	238	-
	5,210	-

18 Programs Expenses

In thousands of Naira	31-Dec-17	31-Dec-16
Loan Programs Expenses (see (a) below)	1,244,063	-
Other Programs Expenses (see (b) below)	206,743	5,948
	1,450,806	5,948

(a) Loan Programs Expenses

Management Fees (see note (i) below)	169,428	-
Business Verification (see note (ii) below)	32,530	-
Credit Insurance (see note (iii) below)	22,721	-
Beneficiary Training (see note (iv) below)	130,580	-
Impairment Charge on Loans and Advances (See note 6(d))	781,785	-
Beneficiary Selection (see note (v) below)	24,273	-
Amortization of Loan Application Software (see note 9 (b))	30,038	-
Other Loan Program Costs (see note (vi) below)	52,708	-
	1,244,063	-

Notes to the financial statements

for the year ended 31 December, 2017

- (i) Management fees relate to payments made to fulfilment partners for loan disbursement, monitoring and collection of repayments. The fees are charged at the rate of 2.50% and 3.50% for Small and medium enterprises and Micro-enterprises loans respectively.
- (ii) Business verification relates to payments made to business development and support partners for verifying information provided by loan applicants and post disbursement business development and support to loan beneficiaries.
- (iii) Credit Insurance represents the amortised portion of annual premium paid for the protection of the loan sum granted to beneficiaries. This covers against default arising from death of loan beneficiaries, burglary and fire of business premises of loan beneficiaries.
- (iv) Beneficiary training represents cost of providing trainings on business management amongst others to successful loan applicants on how to better utilize and turn around capital and manage their businesses.
- (v) Beneficiary selection fees represents the fees paid to independent consultants to manage the beneficiary selection process and recommend candidates to the Fund for approval.
- (vi) Other programs cost represents the cost of engaging consultants to carry out an impact assessment of the Fund and stakeholder engagement for creating awareness for the acquisition of loan beneficiaries amongst others.

(b) Other Programs Expenses

In thousands of Naira	31-Dec-17	31-Dec-16
Employability program cost - UNDP arrangement (See note 8(a))	152,959	-
Employability program costs - Others	15,750	5,948
Technological Start-ups (see note (i) below)	38,034	-
	206,743	5,948

- (i) The Technological Start-up programs represents the program where the Lagos State Employment Trust Fund plans to finance and accelerate startups that are technologically driven. The cost is primarily made up of the cost of setting up of the framework of the program together with some associated infrastructure.

19 Personnel expenses

In thousands of Naira	31-Dec-17	31-Dec-16
Wages and salaries	258,306	19,094
Staff allowances	85,737	13,568
Defined contribution plan (see note (a) below)	15,365	1,412
	359,408	34,074

- (a) This is the cost incurred by LSETF on employees pension. LSETF and its employees make respective contributions of 10% and 8% of the base salary, housing and transport allowance to each employee's retirement savings account maintained with employees' nominated Pension Fund Administrators.

20 Other operating expenses

In thousands of Naira	31-Dec-17	31-Dec-16
Rent & Service charge	28,335	20,229
Professional fees	23,413	139,523
Audit fees	9,500	3,000
Trustees' sitting allowance (See note 21 (b))	27,878	24,800
Pre-operational expenses	-	8,282
General and Administrative expenses	39,401	9,378
Fueling	9,404	555
Transport and Travelling	21,851	5,782
Bank Charges	989	35
Security Costs	1,102	71
Board and Staff Strategy Session	11,290	11,163
Board Training	50,152	9,943
Staff Training	34,409	-
Electricity & Power	13,471	2,500
Office repairs and maintenance	2,657	10,906
Printing and stationeries	11,984	3,649
Motor vehicles repairs and maintenance	2,995	1,731
Advert, Publicity and Engagement	94,853	34,793
Computer Accessories & Consumables	17,479	6,422
Insurance	45,666	1,249
Other Expenses	26,889	23,251
	473,718	317,262

Notes to the financial statements

for the year ended 31 December, 2017

21 Analysis of personnel expense

Employees

(a) (i) Employee costs, including the executive secretary's remuneration amounted to:

In thousands of Naira	31-Dec-17	31-Dec-16
Salaries (see note (ii) below)	258,306	19,094
Staff allowances	85,737	13,568
Pension contribution	15,365	1,412
	359,408	34,074

(ii) Included in the salary expense is N51.4 million paid to Liaison officers during the year. These liaison officers act as agents of the Fund by assisting the Loan applicants with their application

(iii) Employees of the Fund, earning more than N500,000 other than the Board of Trustees, whose duties were wholly or mainly discharged in Nigeria, received emoluments (excluding pension contributions and certain benefits/allowances) in the following ranges:

	Number	Number
N500,001 - N1,500,000	18	10
N1,500,001 - N2,500,000	6	-
N2,500,001 - N3,500,000	15	4
N3,500,001 - N4,500,000	5	2
N4,500,001 - N5,500,000	9	9
N5,500,001 - N6,500,000	3	3
N6,500,001 - N7,500,000	2	2
N7,500,001 - N8,500,000	1	-
N8,500,001 and above	-	-
	59	30

(b) The Board of Trustees' emoluments comprise:

Trustees' sitting allowances	27,878	24,800
	27,878	24,800

The sitting allowances disclosed above include amounts paid to:

	31-Dec-17	31-Dec-16
The Chairman	736	736
The highest paid Trustee	736	736

There were no fees paid to the Trustees during the year.

22 Reconciliation notes to the statement of cashflows

(i) Changes in prepayments

In thousands of Naira	31-Dec-17	31-Dec-16
Balance, beginning of the year	38,232	-
Balance, end of the year	(51,067)	38,232
(Increase) in Prepayments	(12,835)	(38,232)

(ii) Changes in other current assets

In thousands of Naira	31-Dec-17	31-Dec-16
Balance, beginning of the year	38,943	-
Balance, end of the year	(520,915)	38,943
(Increase) in Other Current Assets	(481,972)	(38,943)

Notes to the financial statements

for the year ended 31 December, 2017

(iii) Changes in Loans and Advances

In thousands of Naira	31-Dec-17	31-Dec-16
Opening balance for the year	-	-
Loans granted during the year	(4,530,042)	-
Cash repayments received	848,271	-
Changes in loans and advances	(3,681,771)	-

(iv) Changes in Other Liabilities

In thousands of Naira	31-Dec-17	31-Dec-16
Balance, beginning of the year	(141,025)	-
Balance, end of the year	118,829	141,025
Increase/(Decrease) in Other Liabilities	(22,196)	141,025

(v) Changes in Unearned Income

In thousands of Naira	31-Dec-17	31-Dec-16
Balance, beginning of the year	-	-
Amount Written to Statement of Financial Performance	38,240	-
Balance, end of the year	124,010	-
Increase/(Decrease) in Unearned Income	162,250	-

23 Contingent liabilities, litigation and claims

The Fund was not involved in any suit in its ordinary course of business as at the reporting date. The Trustees of the Fund are not aware of any pending or threatened claims or litigations, which may be material to the financial statements. There were no other contingent liabilities requiring disclosure in the financial statements.

Notes to the financial statements

for the year ended 31 December, 2017

24 Taxation

The income of LSETF is exempted from income tax based on the provisions of Section 23 (i) of the Companies' Income Tax Laws of Nigeria and the Section 26 of the Lagos State Employment Trust Fund Act/Bill.

25 Related Parties

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes trustees and key management personnel, among others.

The Fund's related party is the Lagos State Government and the details of its transactions with the Fund is shown below;

Name of related party	Relationship	Nature of transactions	Due from/(Due to)		Receipt/(Payment)	
			31-Dec-17	31-Dec-16	31-Dec-17	31-Dec-16
In thousands of Naira						
* Lagos State Government	Parent	Capital contribution	-	-	2,750,000	6,250,000
* Lagos State Government	Parent	Take off grant	-	-	-	150,000
Restral Limited	Trustee	Training of Loan Beneficiaries	-	-	(14,837)	-
LASACO Assurance Plc	Sister Company	Insurance of the Fund's Assets	-	-	(10,658)	-
Ibile Microfinance Bank Limited	Sister Company	Fulfilment Partners	(8,250)	-	(9,123)	-
Trustees and Relations	Key Management Personnel	Loan Beneficiary	5,475	-	(6,000)	-

* The Lagos State Government released the sum of N2.75 Billion on various dates as capital contribution to the Fund for onward disbursement to unemployed Lagos State residents who meet the relevant criteria.

Key management compensation

(i) Key management personnel of the Entity includes all Trustees and senior management. The summary of the compensation of key management personnel for the year is as follows:

Key management compensation

	31-Dec-17	31-Dec-16
In thousands of Naira		
Salaries and other short-term employee benefits	30,446	6,160
Sitting allowances	27,878	24,800
Total compensation of key management personnel	58,324	30,960

26 Events occurring after reporting period

There were no events occurring after the end of the reporting period which could have a material effect on the financial position of the Fund as at 31 December 2017.

Notes to the financial statements

for the year ended 31 December, 2017

27 Financial risk management

(a) Introduction and overview

The Board of Trustees (BOT), comprising the Chairman, Executive Secretary and other Trustees is the apex decision making body of the organization. The BOT provides guidance for the overall risk appetite and direction of the Fund. The BOT has overall responsibility for the establishment and oversight of the Fund's risk management framework

The Fund's Risk Management Framework provides structured process, upon which risk and control processes are built.

The Fund's risk management policies are established to provide guidance regarding the management of risk, to support the achievement of the Fund's strategic objectives, protect Fund's assets, set appropriate limits and controls, and monitor adherence to limits. LSETF Risk Management Framework, Policies and Operating Procedures are reviewed at the minimum, annually in line with changes in the operating environment, and available resources among competing Fund's activities.

The BOT have the overall responsibility for developing, monitoring and overseeing the Fund's risk management policies, procedures and framework.

The Board is assisted in its oversight role by the Board Audit & Risk Committee, which undertakes both regular and ad-hoc reviews of risk management controls and procedures. The Board Audit & Risk Committee has oversight over the Fund's audit, risk and control functions. Its responsibilities include:

- Overseeing the integrity of the financial statements and financial reporting process;
- Monitoring choice of accounting policies and principles;
- Overseeing the activities, hiring, performance and independence of the external and internal audit function;
- Overseeing the effectiveness of internal control systems, accounting and operating procedures;
- Establishing policy standards and guidelines for risk assessment and management;
- Ensuring compliance with legal and regulatory requirements, including completeness of disclosures; and
- Overseeing ethics, and whistle-blower hotlines.

(i) LSETF's Approach to Risk

The Fund addresses the challenge of risks comprehensively through an enterprise-wide risk management framework, applying leading practices that is supported by a governance structure consisting of the Board and Executive Management committees. The Board sets the tone for the risk governance and compliance process by setting the risk philosophy, policies and risk management strategy. Board Audit & Risk Committee reviews and ensures the compliance of our internal control and risk management practices, in line with the LSETF Law of 2016, Regulatory Requirements, Best Practices, and Board-approved guidelines.

The Management Risk Committee, headed by the Executive Secretary, drives the management of the financial risks (liquidity and credit risk), operational risks, strategic and reputational risks. The Committee is responsible for the daily operations of the Fund with jurisdiction over multiple activities including risk management.

The Fund continuously identifies all events that, if they occur, would affect the Fund's ability to achieve its goals. The Fund prioritizes early identification of these events, to enable proper risk response. The Fund also educates and empowers stakeholders to own the risks applicable to them, guiding them to being front level risk managers.

The Fund continuously evaluates the likelihood of occurrence, and the extent of deviation from expectation if crystallization of identified risks occurs. There is constant communication of risk positions to relevant stakeholders. This communication includes periodic reporting, deviation escalation, and knowledge sharing to help in the entire risk management process.

The key features of the Fund's risk management framework are:

- The overall risk management direction and oversight is provided by the BOT;
 - The BOT approves the Fund's risk appetite;
 - Risk Management is entrenched in the Fund's processes. However, the Risk management function does not influence the outcome of other risk creating functions;
 - The Fund manages its credit, operational and liquidity risks in a coordinated manner; and
 - Reports are being provided to the Management and Board by the Risk Management Unit, while the fund's internal audit unit report to the Board of Trustees.
 - The compliance function, under the leadership of the Head of Internal Audit of the Fund ensures:
 - o Review and analysis of all relevant laws and regulations, which are adopted into policy statements to ensure business is conducted professionally;
 - o The review and the compliance of our internal control and risk management practices, in line with Board-approved and regulatory standards;
- and
- o Adequacy of controls systems.
 - Strong Board Committees, and Executive Secretary's oversight of Risk Management, Compliance, and Audit programs.

Notes to the financial statements

for the year ended 31 December, 2017

(ii) Risk Appetite

The Risk Appetite of the Fund is reviewed annually in line with the Enterprise Strategic Objective. As things evolve within the year, circulars and directive are issued periodically to reflect the changes in risk direction. The Risk Appetite contains limit on exposure to sectors, Local Government, Age and liquidity expected to cover operational expenses e.t.c.

The Fund employs a range of quantitative indicators to monitor the Fund's risk profile. Specific limits have been set in line with the Fund's risk appetite. The Board of Trustees of LSEF adopts a balanced approach in determining acceptable levels of risk for the Fund to undertake.

The Fund will only pursue endeavors within its objectives in a safe and sound manner, complying with the LSEF Law of 2016, relevant guidelines, and ensure the Fund's sustainability for a longer term.

(iii) Risk Management Philosophy, Culture and Objectives

The Fund considers effective risk management a requirement in a long-lasting institution. The Fund's Risk Management Framework gives all relevant stakeholders a clear and consistent direction of its approach to managing risks, and individual's role in the Risk Management Process. The Fund continually educates and empowers stakeholders to be risk managers, guiding them to be the front line of risk response thereby building a shared perspective on risks. All risks are brought together under limited number of oversight functions, thereby having a holistic and integrated approach to risk management. Clear segregation of duties between Finance & Corporate Services, Programs and Risk Management. All activities with risk implication are thoroughly assessed. There is communication of risk positions to relevant stakeholders which includes periodic reporting, deviation escalation, and knowledge sharing to help in the entire risk management process.

The Fund has exposure to the following risks arising from its business and mandate

- Credit risk
- Liquidity risk
- Funding risk
- Counterparty risk
- Operational risk
- Political risk
- Legal risk
- Environmental & Social risk
- Strategic risk
- Fiduciary risk

1) Credit risk

Credit risk is the risk of financial loss to the Fund if a beneficiary or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Fund's receivables from loan beneficiaries and investment securities. The BoT have the overall responsibility for Credit Risk, and it delegated some of its loan approval responsibility to Board Credit & Investment Committee and Management Credit Committee.

The Fund has exposure to credit risk arising from the loans granted to Lagos State Residents.

Credit exposure begins from when Fulfillment Partners make approved money available to the beneficiaries Existing approval grid is shown below.

The Fund's internal credit approval limits for the various authority levels are as indicated below:

Approval Limit		
Loan Type	Amount	Approving authority
Micro Enterprise Start-up Loans	N250,000	Management Credit Committee
Micro Enterprise loans	N500,000	Management Credit Committee
SME loans	Up to N2,500,000	Board Credit & Investment Committee
SME loans	Above N2,500,000	Board of Trustees

Notes to the financial statements

for the year ended 31 December, 2017

(i) Exposure to credit risk

The Fund's exposure to credit risk is influenced mainly by loan beneficiaries' willingness and ability to repay their loans as and when due.

The Fund is exposed to credit risk on its cash and cash equivalents, investments, loans and receivables balances due from its beneficiaries and other counterparties in the public and private sectors. The Fund has procedures to monitor its credit risk across segments. Although beneficiaries are free to repay their outstanding loans before expiration, all loans are categorized as Loans and Advances & Receivables.

Available-for-Sale Investment

The Fund limits its exposure to credit risk by investing only in highly liquid money market instruments with counterparties that have good credit rating. The Fund actively monitor credit ratings and ensure that the Fund make investments in line with the Fund's investment policy as approved by Board.

The Fund did not have any Available-For-Sale investments as at 31 December 2017.

Cash and cash equivalents

The Fund held cash and cash equivalents with maturity profile of less than three (3) months, held with local Fund Managers assessed in line with the investment policy, to have good credit ratings. The Fund also carries out a periodic evaluation of its Fulfillment Partners' Financial Health, Corporate Governance and Capacity.

Loans and advances to beneficiaries and other receivables

The Fund has classified loans to beneficiaries as loans and advances and other receivables. The Fund's exposure to credit risk is influenced mainly by beneficiaries' willingness and capacity to repay obligations as and when due. The Fund ensures that loan application process assesses each applicant's credit history and financial capability in line with the loan amount. These assets evaluated for impairment in line with IPSAS 29. The total impairment allowance during the year ended 31 December 2017 was ₦783,913,122. This impairment figure represents collective impairment charge on Loans and Advances.

(ii) Collateral security

All financial assets held by the Fund are normally unsecured. The Fund's comfort on the loans and advances is the guarantee provided by beneficiaries, credit risk is also reduced from the fact that the loans are tenored with maturity period of not more than 36 months. Loans are also insured under Life, theft and Fire Policy.

(iii) Write-off policy

Loans written off shall reduce the Net Asset Value of the fund by the amount written off. Board approval shall be required for such write-off. The Fund shall write off a loan balance when the Fund's Risk Management Department determines that the loan is uncollectible and has been declared delinquent and subsequently classified as lost. There shall be a periodic review and identification of classified loans deemed to be uncollectible with long outstanding balances of principal and interest. Loan recovery effort shall continue on written off loans, with recovered loans treated as income. There were no write offs during the year.

(iv) Maximum exposure to credit risk

The carrying amount of the Fund's financial assets, which represents the maximum exposure to credit risk at the reporting date was as follows:

	Note	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>			
Cash and cash equivalents	4	3,273,074	1,881,904
Loans and advances	6	3,018,735	-
Investment securities	5	-	4,062,301
		6,291,809	5,944,205

Notes to the financial statements

for the year ended 31 December, 2017

(v) *Geographical Sectors*

All LSETF loans are to beneficiaries who are resident in Lagos.

(vi) *Credit Quality*

The following table breaks down the Fund's main credit exposure at their gross amounts ("Due from Funds" at carrying amount), as categorised by performance as at 31 December 2017 and 2016 respectively.

	31 December 2017			31 December 2016		
	Due from Bank Loans and advances to beneficiaries	Total	Due from Bank Loans and advances to beneficiaries	Total	Due from Bank Loans and advances to beneficiaries	Total
	₦	₦	₦	₦	₦	₦
Neither past due not impaired	3,273,074	-	3,273,074	5,944,205	-	5,944,205
Impaired						
Individually impaired	-	-	-	-	-	-
Collectively impaired	-	3,802,648	3,802,648	-	-	-
Gross	3,273,074	3,802,648	7,075,722	5,944,205	-	5,944,205
Impairment allowance						
Specific impairment	-	-	-	-	-	-
Collective impairment	-	(783,913)	(783,913)	-	-	-
Net	3,273,074	3,018,735	6,291,809	5,944,205	-	5,944,205

(2) **Liquidity risk**

Liquidity risk is the potential loss arising from the Fund's inability to meet its obligations as they fall due without incurring unacceptable cost or losses. Liquidity risk is not viewed in isolation, because financial risks are not mutually exclusive and liquidity risk is often triggered by consequences of other risks faced by the Fund. This risk for the Fund would include the inability to manage unplanned decreases or changes in funding sources. The fund ensures always, it has enough liquidity enough to cover its six (6) months operation.

(i) **Liquidity risk management process**

The Fund has a liquidity risk management process that ensures that sufficient liquidity, including a cushion of unencumbered and high-quality liquid assets, are maintained at all times to enable the Fund to withstand a range of stress events, including those that might involve loss or impairment of funding sources.

The Fund's liquidity risk exposure is monitored and managed by the Finance Unit on a weekly basis. This process includes:

- Projecting cash flows and considering the level of liquid assets necessary in relation thereto
- Monitoring balance sheet liquidity against operational requirement;
- Maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimizing any adverse long-term implications for the Fund.

The following are the contractual maturities as at 31 December 2017 of financial liabilities and financial assets :

Contractual cashflow							
	Note	Carrying amount	Gross Nominal Inflow/Outflow	3 months or less	3-12months	1-2 years	2-10 years
In thousands of Naira							
Financial assets							
Cash and cash equivalents	4	3,273,074	3,301,789	3,301,789	-	-	-
Loans and Advances	6	3,018,735	3,207,189	680,105	1,273,555	894,631	362,301
Total		6,291,809	6,508,978	3,981,894	1,273,555	894,631	362,301
Financial liabilities							
Other Liabilities	13	65,689	65,689	65,689	-	-	-
Total		65,689	65,689	65,689	-	-	-
Liquidity gap				3,916,205	1,273,555	894,631	362,301
Cumulative				3,916,205	5,189,760	6,084,391	6,446,692

Notes to the financial statements

for the year ended 31 December, 2017

The contractual maturities as at 31 December 2016 of financial liabilities and financial assets are as follows:

Contractual cashflow							
	Note	Carrying amount	Gross Nominal Inflow/Outflow	3 months or less	3-12 months	1-2 years	2-10 years
In thousands of Naira							
Financial assets							
Cash and cash equivalents	4	1,881,904	1,881,904	1,881,904	-	-	-
Investment Securities	5	4,062,301	3,822,701	3,822,701	-	-	-
Total		5,944,205	5,704,605	5,704,605	-	-	-
Financial liabilities							
Other Liabilities	13	73,464	167,603	167,603	-	-	-
Total		73,464	167,603	167,603	-	-	-
Liquidity gap				5,537,002	-	-	-
Cumulative				5,537,002	5,537,002	5,537,002	5,537,002

3) Funding risk

Funding risk is the risk that arises from lack of fund or delay in the release of fund by the Lagos State Government and other donor partners. LSETF seeks external funding and partnerships for its intervention programmes and operations. The target is to match the contribution of the Lagos State Government 100%, reducing the dependence on Lagos State Government as the sole provider of capital.

4) Counter Party risk

Counter Party risk is the risk that arises from failure of the Fund's Partners or Stakeholders not fulfilling their contractual obligation. LSETF does not engage any partner who is not licensed by its regulator, registered with the Lagos State Government Procurement Agency, and experienced in its line of business. We also publicise all proposals to get the best service and in line with the approved procurement process.

5) Operational risk

Operational risk is the risk that arises from the potential that inadequate information systems, processes or people will result in unexpected losses. This risk is mitigated by ensuring that there is adequacy of internal control and information systems, employee integrity, management policies and operating processes.

6) Political risk

Political risk is the risk that arises from change in government. This risk might crystalize as a result of repeal of or modification to the law that established LSETF. LSETF does not use political affiliation as a basis for beneficiary selection or business consideration. We have built global best practice into our operations, with approved operating guidelines to reduce subjectivity within or outside the system.

7) Legal risk

Legal risk is the risk that arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of the Fund. Legal risk can also arise from violations of or nonconformance with laws, regulations, prescribed practices, standards, or ethical standards. The Fund manages its operations within applicable laws and guidelines. Terms and conditions in our contracts and engagements are written in English language. We also have dispute resolution statements in all our contracts and engagement.

8) Environmental & Social Risk

Environmental & Social risk is the risk that arises from the Fund's action or inaction, resulting in; environmental degradation, destruction of natural habitat, reduction of employment, social unrest, community/labour scuffle, greenhouse gas emission etc. We ensure we do engage in activities that are socially inclusive, and we ensure our operation footprint do not degrade the environment.

9) Strategic risk

Strategic risk is the risk that arises from the pursuit of an unsuccessful plan; making poor decisions, not supporting a good decision with the adequate resources, or not responding to changes in the environment. This is the risk that the Fund's strategy may be inappropriate to support long-term goals. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed to support

Notes to the financial statements

for the year ended 31 December, 2017

achievement of those goals, and the quality of implementation. Properly managing these risks is not only critical to the conduct and sustainability of the Fund, but also crucial to the its success.

10) Fiduciary risk

Fiduciary risk is the risk that arises from failure of the Fund in its position as an intervention fund to achieve the aspiration of the Lagos State Government to create more employment or failure as an agent/trustee in start-up ideation/incubation activities.

11) Market risk

Market risk is the risk that changes in market prices such as interest rate will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

(i) Exposure to interest risk

The Fund is exposed to a considerable level of interest rate risk (i.e. the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates). During the financial year, interest rate was fairly stable while inflation rate dropped. The Fund, however, has a significant portion of its loans and advances to customers at a concessionary fixed rate of 5%. Sensitivity analyses are carried out from time to time to evaluate the impact of rate changes on the net interest income. The assessed impact has not been significant on the capital or earnings of the Fund.

Interest rate profile

At the end of the reporting period the **Interest rate profile** of the Fund's interest bearing financial instruments as reported to the Management of the Fund are as follows:

Financial instruments	Notes	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>			
Cash and cash equivalents	4	3,273,074	1,881,904
Investment Securities	5	-	4,062,301
		3,273,074	5,944,205

Fair value sensitivity analysis for fixed rate instruments

The Fund does not account for any fixed rate financial assets and liabilities at fair value through profit or loss or available for sale. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss or equity.

The table below shows the impact on the Fund's profit before tax if interest rates on financial instruments had increased or decreased by 100 basis points, with all other variables held constant.

	Notes	31-Dec-17	31-Dec-16
<i>In thousands of Naira</i>			
Increase in interest rate by 100 basis points (+1%)		32,731	59,442
Decrease in interest rate by 100 basis point (-1%)		(32,731)	(59,442)

(ii) Exposure to foreign currency risk

The Fund is exposed to a minimal level of foreign currency risk (i.e. the potential risk of loss from fluctuating foreign exchange rates due to exposure to foreign currency). During the financial year, Naira was fairly stable. The Fund keeps minimal foreign currency assets as represented by the balance in its domiciliary account. The Fund does not have any obligation in foreign currency.

OTHER NATIONAL DISCLOSURES

Other National Disclosures Value Added Statement

As at 31 December, 2017

In thousands of Naira	31-Dec-17	%	31-Dec-16	%
Receipts	367,085	(24)	277,527	(608)
Bought-in materials and services Local	(1,924,524)	124	(323,210)	708
Value added	(1,557,439)	100	(45,683)	100
Distribution of value added:				
To employees:				
Wages, salaries and pensions	359,408	(23)	34,074	(75)
Retained in the business:				
For the replacement of fixed assets and intangible assets (depreciation and amortisation)	100,218	(7)	20,594	(45)
To deplete reserves	(2,017,065)	130	(100,351)	220
Value added	(1,557,439)	100	(45,683)	100

Other National Disclosures Financial Summary

for the year ended 31 December, 2017

In thousands of Naira	31 December 2017	31 December 2016
Statements of financial position		
Total assets	7,248,783	6,440,674
Total liabilities	(248,149)	(141,025)
	<u>7,000,634</u>	<u>6,299,649</u>
FINANCED BY:		
Capital Contribution	9,150,000	6,400,000
Deficit from Operations	(2,149,366)	(132,301)
Other Reserves	-	31,950
Shareholders Funds	<u>7,000,634</u>	<u>6,299,649</u>
Statements of financial performance		
Total revenue	367,085	245,577
Social Impact and Other Programs Expenses	(1,450,806)	(5,948)
Recurring Expenses	(933,344)	(371,930)
Gain on available-for-sale securities	-	31,950
Reclassification to the statement of financial performance on disposal	(31,950)	-
Profit for the year	<u>(2,049,015)</u>	<u>(100,351)</u>

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